MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Provision of reserve fuel supply: financial and fiscal implications

Date:	24 April 2026	**Priority:**	Urgent
Security classification:	Restricted	**Tracking number:**	BRIEFING-REQ-0031874

Action sought		
	Action sought	**Deadline**
Hon Nicola Willis **Minister of Finance**	**Note** and a**gree** the recommendations	28 April 2026
Hon Shane Jones **Associate Minister of Energy**	**Note** and **agree** the recommendations	28 April 2026

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Ray Smith	Chief Executive, Fuel Response	Privacy of natural persons	
Mario Di Maio	Strategic Advisor, The Treasury		
Iain Cossar	Chief Operating Officer, Fuel Response		✓
Alistair Dixon	Policy Director		

The following departments/agencies have been consulted
The Treasury was involved in the preparation of this briefing.

Minister's office to complete:	☐ Approved	☐ Declined
☐ Noted	☐ Needs change	☐ Seen
☐ Overtaken by Events	☐ See Minister's Notes	☐ Withdrawn

Comments

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Purpose

To outline the financial and fiscal implications from supply of additional fuel by Z Energy, to seek agreement to establish an appropriation for funding this additional fuel supply, and to provide an update on the terms in the Letter of Intent for the supply of additional fuel by Z Energy.

Executive summary

On 13 April 2026, Cabinet agreed to urgently bolster fuel-supply resilience and authorised the Minister of Finance and Associate Minister of Energy to approve commercial terms and the appropriation and funding implications.

Following the Ministerial Oversight Group's decision on 22 April 2026 to approve the proposed key terms of a Letter of Intent (LOI) with Z Energy, officials have progressed negotiations and the LOI is close to finalisation. Commercial Information

This briefing seeks the following decisions:

- agree to establish a new multi-year non-departmental operating appropriation of NZ$200 million (1 May 2026 to 30 June 2027) to fund commercial fuel-security arrangements, including the proposed transaction with Z Energy
- approve the associated appropriation changes to give effect to this decision (with a corresponding impact on the operating balance and net core Crown debt)
- agree that the changes be included in the 2025/26 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
- agree that expenses incurred under the appropriation be charged as pre-commitment against the Budget 2026 allowance.

The NZ$200 million envelope provisionally included in Budget 2026 has been assessed by officials as Commercial Information

The key cost drivers and fiscal risks are fuel-price volatility (including changes in backwardation/contango), foreign-exchange exposure (USD cashflows), and operating-balance volatility from unhedged fuel-price movements Free and frank opinions Commercia

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Your agreement is required by 28 April 2026 to enable execution once commercial terms are satisfactory and procurement requirements are met.

Recommended action

The Ministry of Business, Innovation and Employment (the Ministry) recommends that you:

a **Note** that on 13 April 2026 Cabinet [CAB-26-MIN-0121]:

- agreed that officials progress commercial negotiations with Z Energy.
- agreed that officials continue discussions with other fuel suppliers who also may be able to offer additional fuel stockholdings, including Commercial Information
- authorised the Minister of Finance and Associate Minister of Energy to enter into a supply agreement with Z Energy, or any other supplier, on behalf of the Crown once they are satisfied with commercial terms and that government procurement requirements have been met.
- authorised the Minister of Finance and Associate Minister of Energy to approve appropriation and funding implications

Noted

b **Note** that, following the 2 April 2026 request for proposals from New Zealand fuel importers to provide additional fuel stockholdings, and following commercial negotiations on proposals from Commercial Information on 22 April 2026 the Ministerial Oversight Group:

(i) agreed that terms of a final binding agreement be finalised with Z Energy only; and

(ii) approved the proposed key terms of a Letter of Intent with Z Energy, subject to any further revisions resulting from ongoing negotiations

Noted

c **Note** that on 22 April 2026 officials recommended that the Minister of Finance agree in principle that it is necessary or expedient in the public interest to Commercial Information contingent on the final transaction achieving satisfactory commercial terms and conditions during the execution phase

Noted

d **Agree** to establish the following new multi-year appropriation, to run from 1 May 2026 to 30 June 2027:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Business, Science and Innovation	Minister for Energy	Ministry of Business, Innovation & Employment	Energy: Supporting Additional Fuel Supply 2026 – 2027	Non - Departmental Other Expense	This appropriation is limited to meeting operating costs (including any costs associated with management of risks arising from this transaction) and associated fiscal impacts arising from commercial fuel-security arrangements that support fuel supply resilience and security in New Zealand.

Agree / Disagree

e **Approve** the following change to appropriations to give effect to the policy decision in recommendation above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)	
Business, Science and Innovation **Minister for Energy**	**2025/26 to 2026/27**	**2027/28 & Outyears**
Non - Departmental Other Expense: Energy: Supporting Additional Fuel Supply 2026 – 2027	200.000	-

Approved / Not approved

f **Note** that the indicative spending profile for the new multi-year appropriation described in recommendation above is as follows:

	$m – increase/(decrease)			
Indicative annual spending profile	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
	80.000	120.000	-	-

Noted

g **Agree** that the proposed change to appropriations above be included in the 2025/26 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

Agree / Disagree

h **Agree** that that the expenses incurred under recommendation above be charged against the between-Budget contingency established as part of Budget 2026.

Agree / Disagree

Privacy of natural persons

Iain Cossar
Chief Operating Officer, Fuel Response
MBIE

___ / ___ / 2026

Hon Nicola Willis
Minister of Finance

___ / ___/ 2026

Hon Shane Jones
Associate Minister of Energy

___ / ___/ 2026

Background

1. On 31 March 2026, Cabinet agreed a strategy to bolster fuel supply resilience, including urgently assessing commercial proposals from existing importers for additional fuel supply and progressing additional diesel storage at Marsden Point.

2. On 13 April 2026 Cabinet [CAB-26-MIN-0121]:

   a. agreed that officials progress commercial negotiations with Z Energy.

   b. agreed that officials continue discussions with other fuel suppliers who also may be able to offer additional fuel stockholdings Commercial Information

   c. authorised the Minister of Finance and Associate Minister of Energy to enter into a supply agreement with Z Energy, or any other supplier, on behalf of the Crown once they are satisfied with commercial terms and that government procurement requirements have been met.

   d. authorised the Minister of Finance and Associate Minister of Energy to approve appropriation and funding implications.

3. Following the 2 April 2026 request for proposals from New Zealand fuel importers to provide additional fuel stockholdings, and following commercial negotiations on proposals Commercial Informatio Commercia Z Energy, on 22 April 2026, the MOG:

   a. agreed that terms of a final binding agreement be finalised with Z Energy

   b. approved the proposed key terms set out in the draft Letter of Intent with Z Energy (Annex 1, BRIEFING-REQ-0031537 refers), subject to any further revisions resulting from ongoing negotiations

   c. Commercial Information

   d. Commercial Information

   e. noted that officials will provide final advice on financial consequences, fiscal treatment and accounting treatment to the Minister of Finance and Associate Minister of Energy for decisions under delegated authority from Cabinet before 30 April.

4. In addition, on 22 April 2026, officials sought the agreement in principle of the Minister of Finance that it appears to the Minister to be necessary or expedient in the public interest for the Crown to:

   a. enter into a derivative with Z Energy involving the pricing mechanism for the fuel; and

   b. Commercial Information

   contingent on the final transaction achieving satisfactory commercial terms and conditions during the execution phase.

5. This briefing provides an update on negotiations with Z Energy and advice on financial consequences, fiscal treatment and accounting treatment of provision of additional fuel supply by Z Energy. This briefing also provides advice on financial provision for further fuel security, additional to that being provided by Z Energy, should Ministers decide this is needed.

6. Officials previously advised that the expected value of the deal was Commercial Information Commercial Information [redacted] The same caveats apply to these updated estimates.

Update on negotiations

7. At the time of writing negotiations on the Letter of Intent with Z Energy are close to being finalised and the most recent draft of the letter of Intent is attached at Annex 1.

8. The terms of the Letter of Intent are, in substance, the same as those which we have previously briefed you on [BRIEFING-REQ-0031537 refers] with two exceptions:

   a. Commercial Information [redacted]

   b. Commercial Information [redacted]

Updated estimate of cost

The funding proposal in the Budget 2026 package is sufficient for the Z Energy proposal and other similar arrangements, if required

9. The NZ$200 million provisionally accounted for in the Budget 2026 package is Commercial Information Commercial Information [redacted]

Updated estimate of costs of Z Energy proposal

10. The estimates of the costs of the proposal remain unchanged from our estimate earlier in the week. This includes the separate components in the table below.

Commercial Information

11. Z Energy’s proposal provides greater certainty on backwardation exposure by agreeing the prices for entry into and exit from the contract. These prices are not set until execution and in a volatile market could change significantly between now and execution. We have worked with the Crown’s commercial advisor to develop scenarios for execution and any subsequent utilisation of the fuel.

Scenario	**Description**	**Potential exposure at execution**
Current pricing environment	Status quo scenario where markets assume Iran/US conflict is resolved and Strait of Hormuz reopens in the coming months, as reflected by the backwardation of the forward pricing curve.	Commercial Information
Escalated pricing environment	Escalatory actions result in the markets pricing in a more prolonged Strait of Hormuz closure and/or further disruptions in other fuel supply chains.	

12. As previously advised the Crown is still exposed to Commercial Information Under these assumptions the sale of any fuel should not result in the Crown incurring additional costs.

13. Assuming the original transaction is executed under the current pricing environment, and the full volume Commercial Information we expect the following potential payoffs.

Commercial Information

14. There are range of market pricing scenarios which could result in the Crown incurring additional costs. Commercial Information

Commercial Information

Sale of the full volume of fuel under these pricing environments could theoretically result an additional Commercial Information of costs.

Cost implications of potential further transactions for additional fuel security

15. Officials are still pursuing other fuel security options, including Commercial Information

Potential costs of an offshore storage proposal

16. Commercial Information

Commercial Information

Commercial Information

17. Commercial Information

18. Officials support retaining financial flexibility to support other options. However, we recommend that further policy work is completed on extending the arrangement to other fuels before any discussions are held with importers.

Risks and liabilities

19. As we indicated to you in our previous briefing (BRIEFING-REQ-0031537), the terms of the draft Z Energy letter of intent propose the Crown accept the following risks:

    a. Commercial Information

    b. Commercial Information

    c. Commercial Information

d. Commercial Information [redacted]

e. Commercial Information [redacted]

f. Commercial Information [redacted]

20. Commercial Information [redacted]

21. Commercial Information [redacted]

22. The exact distribution of risks is subject to negotiation and will only be confirmed in negotiations on the fully termed agreement.

Financial Implications

23. The arrangement with Z Energy Commercial Information [redacted]

24. The arrangement involves real economic costs from day one, even though most cash settles later. An upfront liability reflecting fuel price backwardation will need to be recognised and amortised over the life of the contract.

25. Commercial Information [redacted]

Fiscal and Accounting Treatment

26. In determining the fiscal and accounting treatment the following is relevant:

Nature of the Arrangement

- The Crown does not acquire title to the fuel. Title remains with Z unless fuel is physically released or sold to third parties.
- Commercial Information [redacted]

- Commercial Information

Up-front payments / premiums

- Any payment required on signing will be recognised immediately and amortised over the life of the contract where appropriate. While the contract itself does not give rise to a recognised derivative asset or liability at inception, any up-front premium or arrangement payment represents a real economic cost and is recognised in the accounts immediately.

Ongoing operating costs and Make-Whole payments

- Commercial Information

Inventory Considerations

- As title does not normally transfer, the fuel does not meet the definition of Crown inventory.

- If the Crown substitutes fuel or acquires heels (fuel remaining once the tank is drained), further accounting advice will be required to determine whether a short-term inventory asset should be recognised.

Appropriation Structure

Operating Appropriation

27. As the Z Energy proposal is over at least two financial years a multiyear nondepartmental operating appropriation will be required.

Timing

28. Commercial Information

29. The proposed appropriation title and scope are as follows

Appropriation Title

Energy: Supporting Additional Fuel Supply 2026–2027

Scope

This appropriation is limited to meeting operating costs (including any costs associated with management of risks arising from this transaction) and associated fiscal impacts arising from commercial fuel-security arrangements that support fuel supply resilience and security in New Zealand.

30. The total funding sought is $200m. This is to cover the Commercial Information he estimates costs for the Z Energy proposal are set out in the table below.

<u>Indicative costs of Z Energy proposal</u>

Commercial Information

<u>Volatility and Forecasting</u>

31. The appropriation will require sufficient headroom to manage fuel price volatility, as illustrated in the cash-flow scenarios.

32. Highly conservative scenarios are considered extremely unlikely and have not been included for budgeting purposes.

Implications for Operating, Capital, and Debt Measures

Operating Balance

33. The arrangement introduces operating volatility, driven by:

- Commercial Information
- Commercial Information

34. Commercial Information

Capital Expenditure

35. No direct Crown capital expenditure is expected.

36. Fuel security objectives are achieved without adding to the Crown's physical asset base.

37. Any future move to establish a permanent strategic fuel reserve would likely require a different structure with capital implications.

Net Core Crown Debt

38. Debt impacts arise through cash flows and through the recognition of any financial liabilities, not asset recognition.

39. Provided the arrangement terminates as planned in December 2026, no enduring increase in net core Crown debt is expected.

Hedging and Treasury Policy Considerations

40. Any hedging arrangements entered into may involve up-front costs. These costs represent real economic expenditure and will be recognised when incurred and amortised over the period of the agreement, where appropriate. The appropriation will need to cover these up-front hedging costs.

Currency hedging:

41. The currency exposure arising from entering into a foreign currency transition would be managed through usual FX hedging processes. FX hedging is generally permitted under Treasury policy.

Remeasurement

Foreign exchange movements

42. With hedging in place, unrealised currency movements from the contract and the hedge would offset.

Fuel price movements

43. The Crown will experience monthly unrealised movements over the life of the contract.

44. Commercial Information

45. The initial price differential between futures prices and spot prices crystallises at the outset (in USD), with exchange rate movements affecting the NZD valuation until settlement. Any release of fuel would have accounting impacts only when a future policy decision is made

Contingent Liabilities

46. The arrangement does not give rise to a quantifiable contingent liability beyond standard contractual obligations. These will be disclosed in accordance with public sector accounting standards.

Key Risks

47. The proposed arrangement with Z Energy has the following financial risks:

- Fuel price volatility and the timing of physical releases could increase operating costs.
- Clear disclosure is required to avoid mischaracterisation of the arrangement as a subsidy or capital expenditure.
- Material volatility in the Crown accounts from unhedged exposures.

48. This analysis is based on information available at the time of drafting. Independent third-party accounting advice will be sought to confirm the appropriate accounting treatment, including for audit purposes.

Next steps

49. The next steps are:

    a. Execution of the letter of intent with Z Energy

    b. Announcement of the agreement with Z Energy

    c. Negotiation of the fully termed agreement with Z Energy.

Annexes

Annex 1: Letter of intent with Z Energy

Annex 1: Letter of intent with Z Energy

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